

Speech by FS at 19th Hong Kong Forum Luncheon (English only) (with photos/video)

Following is the speech by the Financial Secretary, Mr Paul Chan, at the 19th Hong Kong Forum luncheon today (December 5):

Dennis (Chairman of the Federation of Hong Kong Business Associations Worldwide, Mr Dennis Chiu), Margaret (Executive Director of the Hong Kong Trade Development Council, Ms Margaret Fong), distinguished guests, ladies and gentlemen,

Good afternoon.

I am delighted to join you all for this year's Hong Kong Forum. To our friends from around the world, a very warm welcome to Asia's world city. I also congratulate the newly elected leadership of the Federation of Hong Kong Business Associations Worldwide. Over the past 18 years, the Federation has excelled in helping to connect overseas entrepreneurs with Hong Kong. Dennis, under your able leadership, I am sure the Federation will continue to inform the international business community about opportunities in and through our city. Indeed, the Federation's mission is closely aligned with the Government's theme of "Connect and Excel" – in other words, how connecting with Hong Kong can help people and businesses excel in our region.

For those of you on a return visit to Hong Kong, I am sure you have noticed how rapidly our city is evolving. Indeed, we take pride in our ability to adapt and keep pace with the latest innovations and developments in the global economy.

Let me first give you a snapshot of Hong Kong's current economic situation. Our economy remains strong. Latest figures show that the real GDP growth in the third quarter this year is 2.9 per cent. This marks the eighth consecutive quarter of growth above the trend growth rate of 2.7 per cent per annum in the past decade. Our full-year GDP for 2018 is forecast to be 3.2 per cent.

The inflation rate is moderate at 2.8 per cent in the third quarter of 2018, and unemployment remains at a record-low 2.8 per cent. Also worth noting is that our exports still grew 5 per cent in the third quarter compared to the same period last year.

These figures underscore the robustness of our economy. However, uncertainties in the global situation and outlook are cause for concern, not least the trade dispute between China and the United States (US). To address the possible impact, we have launched a number of measures to help businesses, in particular SMEs, that may be affected. We have enhanced our

various funding schemes to assist them in developing new export markets, and strengthened the export credit insurance provided to exporters. We have also improved our loan guarantee scheme to make it easier and cheaper for SMEs to borrow from the banks. Given the increasing interdependence of the global economy, we shall continue to monitor the global economic situation very carefully, and implement timely counter measures as appropriate.

Coming in from the Hong Kong International Airport, I am sure the Hong Kong-Zhuhai-Macao Bridge has caught your eye. Yes, it is open. The other major cross-boundary transport infrastructure, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, is operating as well. The Express Rail Link connects Hong Kong to the over 25,000-kilometre high-speed train network on the Mainland, while the Hong Kong-Zhuhai-Macao Bridge conveniently connects Hong Kong to cities on the west bank of the Pearl River Delta. These two mega projects are expected to create growth opportunities for various industries, not least tourism, trade, logistics, and financial and professional services.

Financial services is one of our key competitive strengths. Over the past 11 months, we have introduced a number of initiatives to further enhance our competitiveness. Let me give you some updates.

On listing regime, since April this year, we have allowed high-growth and innovative companies with weighted voting rights structures, as well as pre-revenue biotech companies, to list on the Main Board of the Hong Kong Stock Exchange. We are confident that the new listing regime will meet the needs of the new economy, thereby further enhancing the attractiveness and competitiveness of Hong Kong's listing platform to issuers from different jurisdictions.

On bond market, we have introduced a three-year pilot bond grant scheme to subsidise bond issuance costs of up to \$2.5 million per case for eligible enterprises issuing bonds in Hong Kong for the first time.

Furthermore, riding on the accelerating global demand for green financial products, we have introduced a Green Bond Grant Scheme and will soon launch a Government Green Bond Programme with a borrowing limit set at HK\$100 billion to jump-start Hong Kong as a green finance hub. In fact, for the first half of this year, we have already attracted 15 issues of Green Bond in Hong Kong raising an aggregate amount of US\$8billion.

On fund management, we have been working very hard to attract more funds of various types to base and develop their business in Hong Kong. To achieve this, we have launched new fund structures and provide profit tax exemption of 100 per cent to attract certain fund managers to Hong Kong, particularly those who are not familiar with the trust law to choose Hong Kong to base their operations. Indeed, we are working to make further legislative amendments to provide a more favourable operating and tax environment to the fund industry to make Hong Kong the private equity hub in Asia.

We are also developing Hong Kong as a global business hub, attracting

enterprises to establish their regional headquarters or corporate treasury centres in Hong Kong.

On the government-to-government level, we will continue to expand our network of free trade agreements (FTAs), investment agreements and avoidance of double taxation agreements with economies around the world. In June this year, Hong Kong and Georgia signed an FTA, thereby expanding our FTA network into the Caucasus region. We have just completed negotiations with Australia on a comprehensive FTA and investment agreement. We are exploring an FTA with the Pacific Alliance, comprising Chile, Colombia, Mexico and Peru, and intend to seek accession to the Regional Comprehensive Economic Partnership after completion of negotiations by ASEAN and other relevant economies. We are also exploring with the United Kingdom options for forging closer economic ties, including the possibility of an FTA in the future. The whole idea of expanding this FTA, apart from expanding our export market, is to make Hong Kong a better place to be regional headquarters of overseas companies.

To step up our presence in the international arena, we are expanding the network of our Economic and Trade Offices (ETOs). This will help to strengthen ties with strategic markets, tap business opportunities and boost direct investment into Hong Kong. Discussions with the Government of the United Arab Emirates on a new ETO in Dubai are progressing well, and we expect to have the ETO set up soon – our first ETO in the Middle East. Meanwhile, in Thailand, a new Bangkok ETO is expected to commence operation early next year. It will be our third ETO in the ASEAN region after Jakarta and Singapore. Together with the ASEAN-Hong Kong FTA coming into full force in early 2019, we anticipate a much closer relationship with the ASEAN Economic Community.

On innovation and technology, we are making substantial investments and are working closely with neighbouring cities such as Shenzhen. In the past two years' Budget and Policy Address, we have already committed over \$100 billion. Some are being spent, and some are to support the initiatives to come. Also, works for the Hong Kong-Shenzhen Innovation and Technology Park at the Lok Ma Chau Loop are progressing according to schedule.

We have allocated, for example, \$10 billion to build two clusters in the Science Park, one on artificial intelligence and robotics, while the other is healthcare technology. We have launched the Technology Talent Scheme and updated our Talent List to make it easier for foreign tech gurus and professionals to come to Hong Kong to work. Also, we have been implementing a number of schemes to provide funding and technical support to start-ups and tech companies. Indeed, another \$10 billion has been given to the Science Park – about 30 per cent of it is to build additional infrastructure and the remaining \$7 billion is for them to tailor-make specific incentive packages to attract foreign tech companies to come to Hong Kong. We have also started a fund to work with venture capitalists to co-invest in start-ups and tech companies.

We welcome multinational corporations to leverage on Hong Kong's platform and set up their regional treasury centres here. We are providing 50

per cent profits tax reduction to help make this happen.

The Guangdong-Hong Kong-Macao Greater Bay Area development is rapidly taking shape. For the information of our guests from overseas, this area covers some 56,000 square kilometres with a combined population of about 70 million – larger than that of the Tokyo and San Francisco Bay Areas combined. Covering nine major cities in Guangdong Province, plus the Special Administrative Regions (SARs) of Hong Kong and Macao, the Greater Bay Area generates an aggregate GDP of around US\$1.5 trillion, which is slightly larger than that of Australia and is comparable to Korea. And it is the most affluent region on the Mainland. It is right on our doorstep, brought even closer to Hong Kong by the Hong Kong-Zhuhai-Macao Bridge and the high-speed rail link. The Greater Bay Area offers tremendous opportunities for Hong Kong businesses and businesses that partner with Hong Kong.

As you can see, we are investing boldly in Hong Kong's future, but what really gives our city its unique competitive edge is the "one country, two systems" arrangement. Since the establishment of the Hong Kong Special Administrative Region in 1997, we have continued to operate as a separate customs territory with our own financial, tax and legal systems. After 21 years, the enduring success of "one country, two systems" is clear. The US-based Heritage Foundation has ranked Hong Kong as the world's freest economy for 24 years in a row; the Swiss-based International Institute for Management Development rates Hong Kong as the second most competitive economy globally. The World Bank lifted Hong Kong to the fourth place in its latest Ease of Doing Business Report, and the World Economic Forum places Hong Kong top in Asia for judicial independence.

I must also mention that a new report by PricewaterhouseCoopers and the World Bank finds Hong Kong to have the most business-friendly tax system in the world – profits tax of 8.25 per cent on the first HK\$2 million of profits of corporations and 16.5 per cent thereafter; salaries tax capped at 15 per cent. No inheritance tax, no capital gains tax, no GST or VAT. That's what we call "business-friendly"!

Ladies and gentlemen, I have mentioned just a few of the initiatives that will continue to strengthen Hong Kong's attractiveness to overseas investors and entrepreneurs. By diversifying our economy, boosting cross-border connectivity and promoting innovation and technology as a driver for growth, we can withstand current and future economic headwinds and capture new opportunities arising from the Greater Bay Area development and the Belt and Road Initiative.

Some of you may wonder, given the current global uncertainties arising from the Sino-US trade conflict and others, whether we still have the resources to implement counter measures and to continue to invest in the future. Let me assure you, the fiscal position of the Hong Kong SAR Government is very strong. We have an accumulated surplus of over \$1,100 billion, not to mention about \$600 billion in the Exchange Fund. We have the financial capacity to invest in our future, to grow our economy further, to continue to improve the living of our people, and to allow us to tackle

economic headwinds ahead.

Each of you is an important ambassador for Hong Kong, promoting our city on the world stage. We invite you, your association members and extended networks to "Connect and Excel" in Hong Kong.

I also wish you all a fruitful Hong Kong Forum and our visitors a most enjoyable stay here in Asia's world city.

Thank you.

